

Federal operating assistance grants presently cover about \$900 million in operating costs--13 percent of transit operating costs nationwide, and a smaller fraction in large cities. Eliminating this aid would place a significant burden on cities that currently receive federal operating subsidies. This burden could be met in four ways: higher state and local government subsidies, higher fares, reduced service, or improved management. If the difference was made up entirely at the farebox, transit fares, presently averaging 53 cents, would have to rise by about a third. To alleviate hardship, federal operating assistance could be phased out gradually. In addition, since maintenance is considered an operating expense and thus ineligible for capital grant funding, terminating federal operating subsidies could aggravate existing problems of deferred maintenance on many transit systems, unless certain major types of maintenance, such as overhauling an engine, were made eligible for capital grant funding.

The Administration has called for the elimination of federal operating subsidies for mass transit by 1985. Under the Administration's proposal, fiscal year 1984 would be a transition year, with \$275 million for operating assistance, down from the 1983 appropriation of \$875 million.<sup>21/</sup> However, the proposal to restrict operating assistance to \$275 million in 1984 has been rejected by both the House and Senate Appropriations Committees.

Airports. The federal government could eliminate a large part of its direct financial role in airport development. The major commercial airports, in which the principal federal interest is centered, tend to be financially self-sufficient, and have in the past relied on federal aid only to a small degree. Under current policy, federal grants are also made available to a large number of general aviation airports that serve primarily local needs and that appear to have considerable unused revenue-raising potential. If the primary beneficiaries, the users of these airports, do not find it worthwhile to finance further development through user fees, it is unclear why the taxpayers at large should do so. To avoid the risk of regional imbalances in airport development, however, some federal grant assistance could be maintained, and targeted exclusively to large- and medium-sized airports that face difficulties in obtaining nonfederal

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21. The Surface Transportation Assistance Act of 1982 limited the amount of operating assistance available to localities for 1984-1986. For each of these years, urbanized areas with populations greater than 1 million are limited to 80 percent of their 1982 operating assistance apportionment, urbanized areas with 200,000 to 1 million people are restricted to 90 percent of their 1982 apportionment, and urbanized areas with populations of less than 200,000 can use up to 95 percent of their 1982 share.

financing; to small rural airports; and to general aviation reliever airports. Selective federal aid to upgrade the nation's 155 reliever airports might help divert general aviation users from the congested major air carrier facilities, especially if implemented in conjunction with congestion fees such as peak hour surcharges.

Withdrawal of the bulk of federal aid would provide the necessary incentive to airport managers--or states, which often own general aviation airports--to levy appropriate user fees. The possibility of imposing peak hour surcharges, together with other forms of local pricing, would help provide airport authorities with the means to substitute local for federal user fees. On the other hand, there could be considerable practical problems in administering such pricing mechanisms. 22/

Under this option, direct grants to airports might total roughly \$300 million a year, or about 30 percent of currently authorized annual federal funding. Elimination of the remaining federal aid would permit about a 20 percent reduction in federal aviation taxes, which presently support airport development and air traffic control services. Alternatively, these revenues could be turned back to the states on a temporary basis, to help ease the transition to fuller nonfederal responsibility for financing airport development.

Water Resources. Under this option, all new intrastate water resources projects would be financed, planned, constructed, and operated at the state or local level. Operation and maintenance of existing intrastate projects could be transferred to the states over a period of ten years. This would shift a considerable financing burden--equivalent to \$1.5 billion in 1982 federal spending--to the states (see Table 6), which accordingly would have a strong incentive to implement user fee financing of water resource projects where applicable. As a result of this increased financial responsibility for intrastate projects, states and user groups would be more likely to promote only the most efficient water projects--those that would return benefits in excess of their costs. Less well endowed states could, however, be put at a relative disadvantage compared to states with a stronger fiscal position. Specifically, energy-exporting states and states with a growing industrial and population base could probably expand their financial, technical, and management roles in water resources development much more readily than could states with shrinking populations and industrial bases.

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22. For further details, see the forthcoming Congressional Budget Office study of airport financing.

## Change Funding Provisions to Reduce the Federal Share of Costs

In several areas, including public transit, highways, water resources, and community development, eliminating federal assistance for projects with predominantly local benefits may not be practicable or desirable because localities could not sustain the costs of these programs alone, or because there are significant inequities or hardships involved. In these cases, the currently high federal share of capital costs could be reduced to improve investment decisions and reflect changes in the priority of investment needs.

Public Transit. The high federal matching share for transit capital grants means that, for most urban areas, the availability of federal funds strongly influences local transit priorities. While the Surface Transportation Assistance Act of 1982 reduced the federal share from 80 to 75 percent, a further reduction to 60 percent would double the local share from what it has been, thereby encouraging localities to commit funds only to projects they really need and to make better decisions as to the tradeoff between improved service and reduced fares. In general, localities would be encouraged to serve basic objectives such as cost effectiveness in moving large numbers of people, rather than build capital-intensive projects made attractive by generous federal funding. There are likely to be adjustment problems for some urban areas, however, because of the increased financial burden, which would amount to at least an additional \$500 million in local funding for 1984 (see Table 6).

Highways. While federal funding of Interstate System repairs has increased significantly in recent years, a large portion of these funds is eligible for use by states not for repairs but for "reconstruction" projects. These are mostly locally oriented projects that do not entail repair of existing highway capacity, but rather involve construction of routes dropped from the Interstate System plan and special types of new construction, such as added lanes and interchanges, that have considerably lower federal priority than repairing the existing system. Under the existing Interstate 4R program (Resurfacing, Restoration, Rehabilitation, and Reconstruction), states select their own combinations of repair and reconstruction projects, all eligible for 90 percent federal funding. Thus a significant reduction in the federal matching ratio for reconstruction projects--say to 25 or 50 percent--would encourage states to channel more of their 4R funds into repair of existing Interstate routes. A 25 percent federal match would reduce federal obligations, and could increase the states' financial burden, by as much as \$800 million in 1984 (see Table 6).

Water Resources. Instead of eliminating the federal role in intrastate water resource projects, a federal loan program could be established that would limit the federal role to that of financing partner for intrastate

projects. This would reduce the federal share of costs while recognizing the federal government's competitive advantage over state and local governments in financing capital-intensive water projects. The fund would require an initial federal investment, but would eventually become self-sustaining as states paid back their loans. States, possibly with local assistance, would select and manage these projects, design and implement user fee systems to recover appropriate project costs, and accept legal responsibility for repaying the costs of providing all vendible benefits as well as an appropriate share of non-vendible benefits. 23/

A possible disadvantage of the program is that high demand for federal loans could deplete the loan fund rapidly, especially early on, before state payments began to replenish the balance. If loan demand was high, distribution of available funds among competing states could pose problems. In addition, defaulting on a loan could prove burdensome and costly for the federal government and the states, possibly resulting in water rights conflicts if the federal government took over a project to recover its investment. 24/

Community Development. Another area in which federal costs could be reduced is the Community Development Block Grant (CDBG) program. Large cities and urban counties are currently entitled to funds regardless of their needs or their ability to finance projects locally, and recipients may use funds to pay the full costs of selected projects.

Federal costs could be reduced by requiring that jurisdictions with local capacity to fund community development projects be required to pay some or all of project costs. Terminating aid to such communities would provide the largest savings, but would also end some services to low- and moderate-income households if jurisdictions chose not to continue current activities. Lowering the share that the federal government pays of projects selected by these communities would probably reduce but not eliminate their activities in this area.

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23. Vendible benefits are those received directly by users, the costs of which can be recovered through some sort of user fee. Non-vendible benefits are benefits to the general public--non-marketable public services that the private market would not otherwise provide, such as maintaining fish and wildlife habitats.
  24. For further details, see the forthcoming Congressional Budget Office study of options for more efficient water resources investments.

## Change Program Rules by Making Federal Regulations More Flexible

Relaxing federal regulations may make sense in several areas, in order to better match federal programs to local needs. In particular, some changes would make it easier for state and local governments to implement more cost-effective projects. Some federal regulations also could be lifted in areas where federal financing of nonfederal projects is eliminated. Indeed, the benefits from returning responsibility to state and local governments would likely be wasted if the federal rules for spending these funds were not modified as well. For example, federal bridge standards could be waived in the case of bridge programs that are turned back to the states, thereby permitting states to specify their own standards based on local traffic conditions. State highway officials have complained that using federal standards for local bridges can increase construction costs by as much as a third--an expense they incur only because of the 75 percent federal matching share. Modifications could also be made in federal highway standards.

Wastewater Treatment. The Clean Water Act, as interpreted by the Environmental Protection Agency, requires capital expenditures to upgrade wastewater treatment and conveyance facilities with little provision for estimating the benefits of such expenditures. In a number of cases, following the guidelines makes little economic sense because of the specific characteristics of local water quality or hydrological conditions. In some coastal systems, for instance, natural currents can cause mixing, biological degradation, and dilution of wastewater, so that environmental degradation does not result and healthy biological communities thrive in the discharge area. To handle such situations, EPA or the states could issue site-specific coastal waivers allowing less than secondary treatment where justified by local conditions. The savings could be substantial--General Accounting Office estimates are as high as \$10 billion in a total of 800 communities.<sup>25/</sup> Wastewater treatment regulations could also be modified where the water is naturally polluted. In rural communities, for example, river water may be so degraded by causes unrelated to wastewater discharges--soil erosion, phosphorus and nitrogen runoff from fertilizers, or chemical contamination from pesticides--that treated wastewater is in fact much cleaner than the natural waterways it empties into.

Public Transit. In other areas, more flexible federal regulations could allow states and localities to assume a larger role in financing their own infrastructure facilities and in developing strategies to best serve local

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25. See U. S. General Accounting Office, "Billions Could Be Saved Through Waivers for Coastal Wastewater Treatment Plants" (May 22, 1981).

needs. In public transit, federal and local regulations governing various aspects of local transit operations could be eased to allow transit operators to take advantage of innovative and potentially more efficient transit alternatives, such as the contracting-out of certain routes and operations to private taxicabs or jitneys (small buses). For example, the cost effectiveness of private taxicabs under contract to transit operators is based on the fact that most taxicab personnel are not unionized. But, under current federal law, unions exert considerable influence and can even restrict the use of federal dollars for these purposes, and transit authorities can be made to pay union-level wage rates in contracting with such companies.<sup>26/</sup> Relaxing these and other regulations would encourage transit operators to implement readily available transit innovations that could reduce costs and better serve the needs of urban and suburban dwellers.

#### Change Both Funding Provisions and Program Rules by Instituting Block Grants

In several areas, consolidation of existing programs into block grants could reduce federal administrative costs and provide increased flexibility for states and localities to set their own spending priorities.

Highways. The Administration recently proposed a Transportation Block Grant that would consolidate six categorical highway programs and fund them as a unified block grant for 1984-1988 at the funding levels enacted for fiscal year 1984. The six programs are: Urban System, Secondary System, Non-Primary Bridges, Highway Safety (FHWA 402 Grants), Hazard Elimination, and Rail-Highway Crossing. The Administration proposal would increase states' flexibility in spending in these areas, but could pose problems for some by its restriction of funding to 1984 levels. Nevertheless, it could provide a transition from the existing alignment of roles to the states' assumption of full financing responsibility for these six locally oriented highway programs sometime in the future.

Wastewater Treatment. Block grants could also be applied to wastewater treatment. The federal government could consolidate the existing 500 to 700 project grants made annually under the EPA program into block grants for each state.<sup>27/</sup> Although some of the cost of disbursing and auditing project funds would be shifted to the states, this consolidation

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26. Section 13(c) of the Urban Mass Transportation Act of 1964.

27. The Administration included EPA wastewater grants in a very different block grant proposal that is part of its 1983 Federalism

would significantly reduce federal administrative costs, and would also allow the states greater discretion in spending their allotted funds. It also might encourage the use of state infrastructure banks, as discussed later.

Community Development. Another strategy for program consolidation, included by the Administration in its 1984 budget submission, would be to combine the CDBG program and the General Revenue Sharing (GRS) program--which provides unrestricted aid to localities--into a single unrestricted block grant for local governments. Because jurisdictions currently entitled to CDBG funds would be assured that their funding levels would not be reduced under this plan, the proposal would have the effect of converting CDBG into an unrestricted grant. The merits of this consolidation would depend on the value that the Congress placed on community development projects relative to other state and local activities. Since CDBG recipients can currently use funds for a wide range of development activities, lifting restrictions on CDBG would probably lead to some increased spending for non-community development activities, rather than to additional spending for community development needs.

#### Encourage Cross-Cutting Financing Mechanisms

To help states and localities assume a larger share of the responsibility for financing public works programs, the federal government could encourage the creation of state infrastructure banks and other cross-cutting financing mechanisms. The state of New Jersey is currently moving ahead with a state infrastructure bank proposal, and recently introduced federal legislation would authorize substantial new federal funds to capitalize state infrastructure banks and other comparable financing mechanisms. An alternative source of funding would be from federal programs that are candidates to be turned back to the states. This might be an effective way to integrate federal financial help with increased state and local responsibilities. Another possibility would be to establish a federal infrastructure bank instead of individual state banks. 28/

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27. (Continued)

Initiative--a State "Mega-block" Grant that would consolidate more than 20 existing categorical and block grants, mainly supporting a variety of human service programs.

28. Bills introduced in this session of the Congress that would authorize new federal funds for state or federal infrastructure banks or comparable financing mechanisms include S. 532, S. 1330, S. 1619, H.R. 1480, and H.R. 2419.

State infrastructure banks would function essentially as revolving loan funds for public works projects. They could be capitalized with both federal and state appropriations as well as proceeds of state bond issues, user fees, and other state revenues, private capital, and the banks' own earnings on equity capital. The banks would serve as the states' vehicles for issuing revenue-backed infrastructure bonds, and a portion of their capital could also help enhance the creditworthiness of localities that might otherwise have more limited access to public credit markets.

In New Jersey, for example, federal capital grants would be combined with state bond proceeds to make low or no-interest loans to municipalities through the new state infrastructure bank. Under this plan, the state of New Jersey estimates that some 200 wastewater systems could be upgraded, instead of 11 if funded directly by EPA project grants. While one result of this could be that the municipalities receiving loans would pay substantially higher user fees than they would under direct project grants from the EPA, the likelihood of higher fees should encourage localities to choose the most cost-effective solutions to their wastewater treatment needs.

Federal encouragement of such state financing mechanisms could take the form of initial capitalization, technical assistance, and legislation to permit federal grant monies (such as EPA Construction Grants for Wastewater Treatment) to be used for loan purposes.

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## CHAPTER V. EDUCATION, EMPLOYMENT, AND SOCIAL SERVICE PROGRAMS

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The federal role in education, employment, and social services grew substantially during the 1960s and early 1970s, with an increased emphasis on activities targeted to groups with special needs. Many new programs were introduced during this period, and existing programs were modified with the intent of inducing nonfederal governments to direct more resources toward meeting the needs of disadvantaged groups in their communities.

While this federal effort was often successful, it was not without its problems. Some programs were criticized as misdirected, duplicative, or unnecessary. Although recent legislation has responded to critics in some areas--for example, changes in employment programs authorized by the Job Training Partnership Act, and elimination or consolidation of numerous small education programs under the Education Consolidation and Improvement Act--it appears that there are still other modifications that might promote more effective federal spending.

This chapter has three major sections. The first outlines the basis for federal involvement in these human services. The second briefly describes the current federal programs and their effects.<sup>1/</sup> The third section summarizes problems and discusses options the Congress might consider to modify the federal role in these areas.

### BASIS FOR FEDERAL INVOLVEMENT

The primary rationale for current human service programs is concern for the distribution of resources--a desire to relieve hardship and inequity--although some activities may have spillover benefits as well, and a few activities can only be justified on the basis of spillovers. One activity--the Employment Service--is based in part on the advantages of centralized coordination.

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1. A more detailed description of current programs is contained in Appendix B.

### Distribution of Resources

Current activities whose primary purpose is to relieve hardship or inequity may be identified with more specific goals. These include a desire to provide more equal opportunities to disadvantaged groups, including the poor and the handicapped; to defray the costs of federally mandated activities; to compensate localities for the effects of federal activities that impose costs on them unevenly; or to ensure that caretaker services are available to dependent persons.

Programs that address the goal of providing more equal opportunities for advancement are those that target educational or employment services on disadvantaged groups. They include compensatory, special, and bilingual education programs, as well as employment assistance programs. Special and bilingual education programs help to defray the costs of ensuring the educational rights of handicapped and non-English-speaking children, in addition to enhancing their opportunities.

Impact aid is a program wholly intended to compensate localities for the effect of federal installations that reduce local tax bases. Some other programs might also be justified, in part, on this basis. One example is bilingual education, since the influx of non-English-speaking immigrants is controlled by federal immigration policy and the preferences of immigrants, both of which are beyond the control of affected communities. Employment assistance programs are another example, since federal macroeconomic and trade policies can have very uneven regional effects on employment.

Programs providing caretaker services include child welfare programs and community- and home-based services for elderly and disabled persons. These exist partly for humanitarian reasons, but in some instances they may also serve to reduce federal and state welfare costs by enabling certain elderly and disabled persons to do without institutional care.

### Spillovers or External Effects

When state or local activities have external benefits that spill over to other parts of the nation, federal support for those activities may be appropriate in order to induce expansion. Federal support for both education and employment programs might in part be justified on this basis, because of the national advantages of a literate and trained population.

Spillover benefits also arise from state and local activities that help to make people more self-sufficient and thereby reduce welfare costs. Spillovers occur because the federal government reimburses states for more

than half of their welfare costs, on average, so that taxpayers throughout the nation benefit from welfare savings in any state. Two major groups of programs may, as already noted, help to reduce welfare costs: those that target educational or employment services on disadvantaged persons; and those that provide caretaker and other social services to dependent persons.

### Centralized Coordination

Centralized coordination of information about job openings and persons available for work can improve the efficiency of the labor market by facilitating labor exchange. Employment Service offices in each state maintain statewide lists of available jobs and applicants. In addition, states have access to a list of job orders nationwide through an interstate clearance system.

### THE CURRENT FEDERAL ROLE

In 1983, the federal government authorized \$28.1 billion for education, employment, and social services (see Table 7). <sup>2/</sup> Of this, 62 percent funded grants to state and local governments for the provision of services. This chapter focuses primarily on grant programs since there is little controversy over the federal role in its direct activities. <sup>3/</sup>

The federal role in state and local activities is significant, even though the federal government is rarely involved in the direct provision of these services. Both the availability of federal funding--through more than 100 grant programs--and the accompanying program regulations influence state and local activities. Financially, the federal role is least significant for education, where federal dollars make up less than 10 percent of all public spending for elementary, secondary, and vocational education (see Table 8). But federal dollars provide nearly 100 percent of public support for employment assistance programs, and about 60 percent of public support for social services. The largest grants are distributed by formula with no requirement for cost sharing by recipient governments. The cost-sharing

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2. Additional federal support occurs through tax expenditures and loans or loan guarantees.
  3. Direct (non-grant) federal spending in 1983 provided educational services for Indians and migrants (\$0.3 billion), financial aid to individuals and institutions for postsecondary education (\$7.3 billion), support for research and cultural activities (\$1.0 billion), and national job training programs for selected disadvantaged groups (\$0.9).

TABLE 7. FEDERAL FUNDING FOR EDUCATION, EMPLOYMENT, AND SOCIAL SERVICE PROGRAMS (In billions of dollars of budget authority)

	Total Federal Funding		Grants to State and Local Governments	
	1982	1983	1982	1983
Education and Related Programs:	14.8	15.4	6.3	6.8
Elementary, secondary, and vocational education	(6.4)	(6.8)	(6.0)	(6.4)
Postsecondary education	(7.4)	(7.4)	(0.1)	(0.1)
Research and general education aids	(1.0)	(1.3)	(0.3)	(0.3)
Employment Programs	5.0	6.2	3.4	4.4
Social Service Programs	<u>6.1</u>	<u>6.6</u>	<u>5.8</u>	<u>6.3</u>
Total <u>a/</u>	25.9	28.1	15.6	17.5

SOURCE: Congressional Budget Office.

- a. This does not include tax expenditures (\$14.8 billion in 1982) or new federal loans (\$1.2 billion) and loan guarantees (\$6.2 billion). Tax expenditures occur in all of the above areas, while federal loans and loan guarantees are generally for postsecondary education.

requirements under other formula grants are often irrelevant, since recipient governments typically spend more than is required under grants that subsidize traditional state and local activities. But cost-sharing requirements under formula grants that support nontraditional activities, and for project grants, may be useful in promoting efficient practices.

TABLE 8. SUMMARY DESCRIPTION OF FEDERAL GRANT PROGRAMS FOR EDUCATION, EMPLOYMENT, AND SOCIAL SERVICES

Program Area	Description of Programs Funded	Distribution Mechanisms	Matching Requirements	Federal Share of all Public Spending
Education	Special services for students disadvantaged by poverty, handicaps, or limited English-speaking ability. Also support for general education programs, and libraries	Mostly formula grants based on the population eligible for services. Bilingual programs supported by project grants	No recipient match required for most programs. Fifty percent match required for some general vocational programs	About 10 percent overall, although the share is much higher for programs targeted on the economically disadvantaged
Employment	Training programs for disadvantaged and dislocated workers. Also the Employment Service	Mostly formula grants based on unemployment and sometimes the relative number of economically disadvantaged persons or labor force size	No recipient match required for largest programs. Recipient cost-sharing (10 percent or variable) required for smaller programs	Close to 100 percent
Social Services	Child welfare; nutrition and homemaker services for the elderly and disabled; vocational rehabilitation; counseling and advocacy; family planning	Mostly formula grants based on population and sometimes income	No recipient match required for largest programs. Recipient cost-sharing (typically 15 to 25 percent) required for some smaller programs	About 60 percent overall, although the share varies by type of service

## Education and Related Programs

In 1983, the federal government spent \$15.4 billion for education, educational aids, or cultural activities. Nearly half of this provided financial aid to students for postsecondary education through student loans, grants, and college work-study programs. The goal of federal student aid is to improve access to higher education for low- and middle-income individuals who might not otherwise attend college, based on concerns for equity and productivity. The federal role in postsecondary education poses no significant problems in intergovernmental relations since most aid is provided directly to students. <sup>4/</sup> Consequently, it is not discussed in this chapter.

Most of the remaining federal funding--\$6.8 billion out of \$8.6 billion--was distributed through grants to state and local governments. <sup>5/</sup> Ninety-five percent of these grant funds supported elementary, secondary, and vocational education, while the remaining 5 percent was used primarily to improve library services and to support the Corporation for Public Broadcasting. More than 70 percent of federal grant dollars for elementary, secondary, and vocational education funded programs for students with special needs--compensatory education for low-income underachieving students, special education for handicapped students, and bilingual education for students with limited proficiency in English. The remaining 30 percent subsidized general education and vocational education programs.

With the exception of bilingual programs, virtually all grants for elementary, secondary, and vocational education are allocated by formula, generally on the basis of the relative number of students eligible for services. Funds for bilingual programs are allocated on a project basis and are intended as short-term capacity-building grants rather than as continuing subsidies.

Rules have generally been quite restrictive in programs that serve students with special needs, but this may be changing. In 1981, Chapter I of

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4. There are complaints, though, about possible denial of aid to persons enrolled in colleges or universities that are not in compliance with federal antidiscrimination laws.
  5. Funds not distributed as intergovernmental grants were used to support Indian and migrant education, research, and cultural activities (including the National Endowments for the Arts and Humanities, the Smithsonian Institution, the National Gallery of Art, and the Institute of Museum Services).

the Education Consolidation and Improvement Act (ECIA) altered provisions of the antecedent Title I program for compensatory education to provide greater flexibility to local agencies in the selection of schools and students participating in the program. Further, the Administration has proposed amending the Bilingual Education Act to allow greater local discretion in how the needs of non-English-speaking students are to be met. Some relaxation of the regulations governing education programs for handicapped children was proposed, but later withdrawn. Finally, the Administration proposed consolidating various programs for vocational and adult education, which would eliminate federal vocational programs targeted specifically on the disadvantaged.

Effects of Current Programs. Federal grant programs for students with special needs have had considerable influence on certain aspects of education at the local level. Federal dollars are the primary source of funding for compensatory services for the disadvantaged. It is likely that such services would be substantially reduced or eliminated in the absence of federal funding, although compensatory programs--at least at the pre-school and elementary school levels--have been successful in improving the performance of disadvantaged children relative to other children.<sup>6/</sup> In contrast, services for handicapped students and students with limited proficiency in English would continue without current federal programs, because federal courts have ruled that special services for these students

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6. Both federal funding and restrictions on the use of funds appear to be important to the continuation of compensatory education programs targeted on disadvantaged groups. In most states there were no school programs for the disadvantaged prior to federal involvement, and evidence from the Title I District Practices Study indicates that schools faced with cuts in federal spending for Title I generally cut back the number of students served in direct proportion. There are also preliminary indications, based on the expressed intentions of school officials, that relaxation of the targeting requirements for compensatory programs--such as occurred with passage of the ECIA in 1981--will result in a reduction or dilution of services to current program participants in favor of more general educational services. See Richard Apling, The Influence of Title I Budget Cuts on Local Allocation Decisions: Some Patterns from Past and Current Practices, and Michael J. Gaffney and Daniel M. Schember, Current Title I School and Student Selection Procedures and Implications for Implementing Chapter I, ECIA, both from *Advanced Technology* (September 1982).

are required by law. 7/ Although federal programs pay only a fraction of the cost of these special services, they have nevertheless affected the kinds of services that are provided. In the absence of federal programs and associated regulations, the services required might be less well defined.

Federal grant programs that support general education or educational aids include impact aid, untargeted programs under the Vocational Education Act (VEA), the state block grant under Chapter II of the ECIA, and subsidies to libraries. Impact aid has a clear rationale as compensation to school districts that are adversely affected by federal installations, although the payments are typically too low to compensate them fully, as determined either by their school expenditures for federally connected children or reduced property tax collections. 8/

Federal support for other general education programs might be justified on the basis of the general benefits of a literate and trained population, but this argument depends on spillover benefits from additional services induced by federal support. Federal dollars provide about 10 percent of all public spending for vocational education; although services may increase by up to this amount, it is more likely that some proportion of federal support is used to replace state and local funding that would otherwise be provided. Moreover, spillover benefits from any induced increase in vocational education are unlikely in any event, because there is no apparent long-term advantage to be derived by vocational education students relative to general curriculum students--at least at the secondary level, which receives 80 percent of federal funds. Spillover benefits from Chapter II of the ECIA are negligible too, since this grant--which is essentially equivalent to unrestricted aid to education--represents less than 0.5 percent of all spending for elementary and secondary education. Spillovers are also probably small from federal support for libraries, which is less than 5 percent of all public spending for this purpose.

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7. Strictly, state and local education agencies that accept federal dollars for any purpose must provide special services to facilitate access to mainstream public education for handicapped and non-English-speaking students.
  8. Although federal installations may generate other kinds of revenue--from sales and income taxes, for example--these will more likely accrue to state governments than to the affected localities. In addition, if federal installations were not there, many sites would be put to some other use that could also generate sales and income tax revenues, as well as property taxes.

## Employment Programs

In 1983, the federal government spent \$6.2 billion for employment programs. About 74 percent of this--\$4.6 billion--supported training and other employment services for disadvantaged and dislocated workers, partly through grants to state or local agencies (\$3.7 billion) and partly through federally administered programs (\$0.9 billion). <sup>9/</sup> About 13 percent of federal spending provided grants to states for the Employment Service, and the remainder was for federal administrative expenses. <sup>10/</sup>

Most federal funding for training is now authorized under the Job Training Partnership Act (JTPA), which will be fully implemented by October 1983, replacing the Comprehensive Employment and Training Act (CETA). Under the JTPA, programs for disadvantaged workers are 100 percent federally funded, with grant funds allocated among the states by formula based on the relative number of unemployed and low-income persons. Funds for dislocated worker programs are allocated some on a project basis and some by formula based on unemployment; a state match that varies from 0 to 50 percent is required, depending on the state's unemployment rate.

Welfare recipients, who are among those eligible for services under JTPA programs for the disadvantaged, can obtain similar services through the Work Incentive (WIN) program. In addition to training and other employment services, however, participants in WIN are provided with a variety of supportive services--such as child care--that are limited under JTPA. Registration for WIN or an alternative work-welfare program is mandatory for certain family members receiving Aid to Families with Dependent Children, although about half of those who register for WIN are unassigned--that is, receive no services--because of insufficient funding.

The Employment Service is a federal activity--with 100 percent federal funding and control--that is administered by the states. Federal funds are allocated among the states by formula, based on labor force size and the number unemployed. Labor exchange services are provided free of charge both to job applicants and to prospective employers. In addition, the Employment Service has a number of supplementary responsibilities includ-

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9. The federal government administers the Job Corps as well as special programs for migrants and Indians.
  10. Administrative expenses include the costs of enforcing minimum wage and child labor laws, as well as laws governing management and union practices.